

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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June 30, 2008

Mr. Barret R. Newlin
Finance Accounting Division Manager
City of Modesto
P.O. Box 642
Modesto, California 95353

Re: City of Modesto, Public Works Department
Audit of Indirect Cost Rate Proposal for Fiscal Year 2007 and Fiscal Year 2008
File No: P1190-0672

Dear Mr. Newlin:

We have audited the City of Modesto, Public Works Department (PW) Indirect Cost Rate Proposals (ICRP) for the fiscal year ended June 30, 2007 and June 30, 2008, to determine whether the ICRPs are presented in accordance with Office of Management and Budget (OMB) Circular A-87 and the Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. The PW management is responsible for the fair presentation of the ICRP. The PW proposed the following cost rates of total direct salaries and wages excluding fringe benefits:

Fiscal Year	Division	Approved Rate
2007	4112- Engineering Design	145.02%
2007	4212- Construction Administration	80.40%
2008	4112- Engineering Design	121.13%
2008	4212- Construction Administration	101.87%

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the PW. Therefore, we did not audit and are not expressing an opinion on the PW's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material

noncompliance with fiscal provisions relative to the ICRP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by the PW, as well as evaluating the overall presentation.

The accompanying ICRPs are prepared on a basis of accounting practices prescribed in the OMB Circular A-87 and the Department's LPP 04-10, and are not intended to present the results of operations of the PW in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICRPs, a comparison of the ICRPs to the fiscal year 2006 and 2007 audited financial statements, and reliance placed on the single audit reports for the fiscal year ended June 30, 2005, June 30, 2006, and June 30, 2007, and prior audit field work performed by Department staff on February 24, 2004 and January 8, 2002. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The results of this audit were communicated to Julie Hendee, PW Administrative Analyst II, on May 7, 2008. Our findings and recommendations take into consideration the PW's response dated June 23, 2008, to our draft findings. Our finding and recommendation, a summary of PW's response and our analysis of the response are detailed below.

AUDIT RESULTS

Based on audit work performed, the PW's ICRPs for the fiscal year ended June 30, 2007 and June 30, 2008 are presented in accordance with OMB Circular A-87 and LPP 04-10. Therefore, the aforementioned indirect cost rates are approved as submitted. The approval for fiscal year ended June 30, 2007 is based on actual costs, thus the carry-forward provision does not apply. Indirect cost rates for fiscal year ended June 30, 2008 are based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

Finding 1

The PW overbilled the Department for Division 4112 and Division 4212 fringe benefit costs as the actual fringe benefit costs are less than the fringe benefit costs charged to projects. According to PW staff, the FY 2007 fringe benefit rate charged to Division 4212 projects was the City recommended rate 35%, while that actual rate is 29.68%. Similarly, the Division 4112 fringe benefit rate charged to projects was 36.92% while the actual costs only supported a fringe benefit rate of 30.82%. The PW also stated that it does not perform year end reconciliation between actual and billed fringe benefit costs.

OMB Circular A-87 Attachment B, item 8h(5)(e), states in part, that budget estimates or other distribution percentages determined before the services are performed do not qualify as support

for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximation of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. In addition, 49 CFR 18.20 (b) (1) states, in part, that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

Recommendation

We recommend the PW determine the variance between the billed and actual fringe benefit costs billed to the Department from FY 2006 to the present, and reimburse the Department for the overbilled costs.

PW's Response

The PW stated that it will go back and retroactively determine the amount of fringe benefit costs based on the actual fringe benefit rate and reimburse the Department for the overbilled fringe benefit costs. It also stated that it will not bill projects using the City of Modesto recommended fringe benefit rates and instead apply the fringe rates that are approved at the time the indirect cost rates are approved. Finally, the PW will also perform year end reconciliation between what is billed in fringe benefits and actual costs.

To further clarify, City staff will review any grants that have been closed out and where it is determined that an incorrect fringe benefit rate was used, will reimburse the Department for any overbilled fringe benefits. For all grants not yet closed out that fall within these fiscal years (2006-2008), the benefit portion of the billing will be adjusted as the remaining progress billings and/or the final billing are processed.

Analysis of Response

We recommend that the next audit of the PW verify the implementation of the City's/PW corrective action plan.

Finding 2

The PW included \$40,709.25 in the FY 2007 indirect cost pool for Division 4212 for the purchase of equipment that should have been capitalized. Subsequently and per our request, the PW excluded these costs and revised the indirect cost rate. 49 CFR 18.20 (b) (1) states, in part, that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. Also, OMB Circular A-87 Attachment B, item 15 b(5) states, in part, that equipment and other capital expenditures are unallowable as indirect costs. Including costs that are not allowable in the indirect cost pool increases the indirect cost rate and if not detected, may result in a payment for unallowed costs to the PW.

Recommendation

We recommend the PW only include in the pool of indirect costs those costs that meet the eligibility criteria as established by the OMB Circular A-87.

PW's Response

The PW stated that it does not include equipment costs over \$5,000 in the pool of indirect costs and as a result of an oversight, did not pull these costs out in FY 2007. The PW also stated that these costs will not be included in future ICRPs.

Analysis of Response

We recommend that the next audit of the PW verify the implementation of the City's/PW corrective action plan.

Finding 3

We reviewed the Fiscal Year Ending (FYE) June 30, 2005, June 30, 2006, and June 30, 2007 Single and Independent Auditor's Reports, and the accompanying FYE 2005 and 2006 management letters issued to the City of Modesto and found that the City has not resolved the exceptions identified by the independent auditor. The exceptions and recommendations with relevance to the PW, and therefore to the grant funds billed to the Department, that were reported, in part, are as follows:

1. FY 2005 Management Letter- Financial System Functionality—The City should investigate whether the financial system could be modified to streamline the grants and payroll functions and eliminate the need to duplicate work. During the current audit, the auditor found that the City anticipates that a request for proposals for the procurement of a new Financial Management System will be issued in the summer of 2008. As such, this issue remains unresolved.
2. Finding 06-02- The City was unable to provide copies of any of the Quarterly Reports that should have been filed during the fiscal year ended June 30, 2006. In addition, in reviewing the Reimbursement Claims that were filed during the year, it appears that none of them were submitted by the required deadline.

The independent auditor recommended that the City should prepare and file required reports timely. However, as this exception is similar to the findings identified in the FYE June 30, 2007 Single Audit Report, this finding remains unresolved.

3. Finding 07-03- The City prepared the final reimbursement request for the Small Air Service Development Grant for a greater amount of project expenditures than the remaining balance available.

The independent auditor recommended that the City ensure that prior reimbursed costs are reviewed and subsequent reimbursement requests are prepared net of prior requests. Similar findings or exceptions were identified in prior fiscal year independent auditor reports, and at this time, this issue remains unresolved.

4. Finding 07-06- The final fiscal year 2007 invoice for reimbursement of fiscal year 2007 costs incurred for the Arterial Roundabouts project was submitted on June 25, 2007, nine months after the previous invoice for reimbursement. The second fiscal year 2007 invoice for reimbursement of fiscal year 2007 costs incurred was submitted on February 7, 2007, more than six months after the previous invoice for reimbursement which was July 27, 2006.

The independent auditor recommended that the City file reimbursements timely, or provide to Caltrans written explanations for the lack of activity in compliance with the grant requirements. Similar findings or exceptions were identified in prior fiscal year independent auditor reports, and at this time, this issue remains unresolved.

5. Finding 07-07- The Traffic Signal Modification project was completed on January 18, 2007. However, as of March 6, 2008, the Final Invoice and Final Detail Estimate reports had not been filed with Caltrans.

The independent auditor recommended that the City should complete and file the required reports with Caltrans and ensure that future grant filing deadlines are met. Similar findings or exceptions were identified in prior fiscal year independent auditor reports, and at this time, this issue remains unresolved.

49 CFR 18.12 (a) states, in part, that if a grantee or subgrantee may be considered "high risk" if an awarding agency determines that a grantee or subgrantee:

- (1) Has a history of unsatisfactory performance, or
- (2) Has a management system which does not meet the management standards set forth in this part, or
- (3) Is otherwise not responsible

The City's continued failure to implement proper corrective actions to correct previously identified audit management exceptions increases the risk of the City being designated "high risk", which would result in restrictions imposed on the City by the Department.

Recommendation

We recommend the City, as well as the PW, implement appropriate corrective action to ensure that these issues, or similar issues, are not reported in subsequent audits. In addition, we recommend that, in the future, the PW ensure its ICRPs are submitted to the Department, in a timely manner and in compliance with OMB Circular A-87 and LPP 04-10, in order to avoid the risk of funds lapsing.

PW's Response

The City has already taken steps to implement the appropriate remedial actions in order to correct the aforementioned findings and to put measures in place to ensure that these issues or similar issues do not come up again in subsequent audits, as noted above for each individual finding. Further, the City has taken steps to ensure that its ICRPs are prepared and submitted to Caltrans for approval in a timely manner and in compliance with OMB Circular A-87 and LPP 04-10 to avoid the risk of funds lapsing.

Analysis of Response

We recommend that the next audit of the PW verify the implementation of the City's/PW corrective action plan.

This report is intended solely for the information of the PW, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Rate Proposals for your files. Copies were sent to the Department's District 10, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Elena Guerrero at (916) 323-7954 or Amada Maenpaa, Audit Supervisor, at (916) 323-7868.


MARYANN CAMPBELL-SMITH
Chief External Audits

Attachments

c: Brenda Bryant, FHWA
Gary Buckhammer, HQ Accounting
Pat Robledo, District 10
P1190-0672

**City of Modesto
2006/2007 Indirect Cost Plan**

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the City of Modesto Public Works Department and approved by Caltrans.

SECTION I: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Final with no carry forward (Division 4112, Engineering Design)	7/1/06 to 6/30/07	145.02%	All Programs
Final with no carry forward (Division 4212, Construction Administration)	7/1/06 to 6/30/07	80.40%	All Programs

*Base: Total Direct Salaries and Wages

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted: such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rates are contained in the grantee's Single Audit which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) The costs used in the calculation of the approved rates are from the grantee's audited financial statements for the fiscal year ended June 30, 2007.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Final Rate with No Carry Forward:

The final rates used in this Agreement are based on actual costs for the period covered by the rates. Therefore, a carry-forward provision does not apply.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by Caltrans in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rates in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rates to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate Calculation

	<u>Division 4112</u> <u>Engineering Design</u>	<u>Division 4212</u> <u>Construction Admin.</u>
FY 2007 Actual Indirect Costs	\$715,579.66	\$421,279.88
Carry Forward from FY 2005	\$.00	\$.00
FY 2007 Indirect Costs	\$715,579.66	\$421,279.88
FY 2007 Direct Salaries and Wages excluding fringe benefits	\$493,431.48	\$523,955.07
FY 2007 Indirect Cost Rate	145.02%	80.40%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect cost rates for fiscal year 2007 (July 1, 2006 to June 30, 2007) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments. "Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the final rate.

I declare that the foregoing is true and correct.

Governmental Unit: City of Modesto

Signature: Barrett R. Newlin

Reviewed, Approved and Submitted by:

Name of Official: Barrett R. Newlin

Title: Finance Accounting Division Manager

Date of Execution: 3/6/08

Signature: Julie Hendee

Prepared by:

Name of Official: Julie Hendee

Title: Administrative Analyst II

Date of Execution: 3/6/08

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Signature: Marilynn Campbell-Smith

Reviewed and Approved by:

Title: Chief, External Audits

Date: 6/30/08

Phone Number: (916) 323-7105

Signature: Elena Guerrero

Reviewed and Approved by:

Title: Auditor

Date: 6/30/08

Phone Number: (916) 323-7954

**CITY OF MODESTO
CARRY FORWARD CALCULATION
Division 4112 - Engineering Design**

APPROVED INDIRECT COST RATE		FY2005	FY2007
		86.41%	145.02%
INDIRECT CARRY FORWARD			
Carry Forward		\$19,087.05	0.00
Indirect Costs from Single Audit		<u>\$ 512,871.45</u>	<u>715,579.66</u>
Total Indirect Costs		\$531,958.50	<u>715,579.66</u>
Recovered Costs			<u>493,431.48</u>
Direct Salaries & Wages		\$ 615,606.11	
(* Approved Rate)		86.41%	
Total Recovered Indirect Costs		\$ 531,945.24	
Indirect Carry Forward		\$0.00	
DIRECT SALARIES & WAGES + FRINGE BENEFITS (Per Single Audit)			
General Fund - S&W		\$615,606.11	
Special Revenue Fund - S&W		n/a	
Internal Service Fund - S&W		<u>n/a</u>	
Total Direct Salaries & Wages		\$615,606.11	
Approved IC Rate (Indirect Costs / Direct S&W)			

INDIRECT COST RATE SUMMARY FISCAL YEAR 2006/2007

ACTUALS

City of Modesto
Public Works Department
Division 4112, Engineering Design

DESCRIPTION OF COSTS	TOTAL COSTS	UNALLOWABLE COSTS	ALLOWABLE INDIRECT COSTS	ALLOWABLE DIRECT COSTS
Personnel Services:				
Salaries & Wages	\$ 827,403.76		\$ 333,972.28	\$ 493,431.48
Benefits	30.82% \$ 254,976.74		\$ 102,918.51	\$ 152,058.23
SUBTOTAL				

INDIRECT COSTS

Worker's Compensation	0162	\$ 9,581.00	\$ 9,581.00
Annual Physical Examination	0163	\$ 418.00	\$ 418.00
Employee Assistance	0166	\$ 514.00	\$ 514.00
Employee Benefits Admin - Rembsm	0167	\$ 3,009.00	\$ 3,009.00
Employee Leave Reimbursement	0168	\$ 60,909.37	\$ 60,909.37
Postage	0201	\$ -	\$ -
Mail Services - Inside	0202	\$ 403.00	\$ 403.00
Copier Charges - Inside	0204	\$ -	\$ -
Conference Expenses	0207	\$ 859.47	\$ 859.47
Business Expenses	0208	\$ 83.56	\$ 83.56
Training Expenses	0209	\$ 1,643.02	\$ 1,643.02
Utilities	0210	\$ 196.76	\$ 196.76
Equipment Rental	0216	\$ -	\$ -
Photocopy - Rent, Service, Supply	0217	\$ -	\$ -
Equipment Pool Rental	0218	\$ 2,723.29	\$ 2,723.29
Records Services - Outside	0219	\$ 97.60	\$ 97.60
Repair & Maint - Outside Forces	0223	\$ 619.36	\$ 619.36
Laundry and Cleaning	0226	\$ -	\$ -
Stores Services - Inside	0228	\$ -	\$ -
Services, Professional & Other	0235	\$ 327.84	\$ 327.84
Building Service - City Forces	0250	\$ 36,978.00	\$ 36,978.00
Infrastructure Tech & Info Chq	0252	\$ 7,560.00	\$ 7,560.00
Replacement Tech & Info Chq	0253	\$ 6,906.00	\$ 6,906.00
Operations Tech & Info Chq	0254	\$ 29,070.00	\$ 29,070.00
Services City Forces - Interfund	0255	\$ 52,504.86	\$ 52,504.86
Phones Tech & Infor Chq	0256	\$ 9,277.00	\$ 9,277.00
Office Supplies	0301	\$ 9,520.02	\$ 9,520.02
Books and Periodicals	0302	\$ 2,422.10	\$ 2,422.10
PC Software & Supplies	0306	\$ 6,700.00	\$ 6,700.00
Tools, Shop and Field Supplies	0308	\$ -	\$ -
Computer Equipment <\$5,000	0350	\$ 6,025.84	\$ 6,025.84
Memberships and Dues	0401	\$ 821.00	\$ 821.00
Property Insurance	0413	\$ -	\$ -
Liability Insurance	0415	\$ 22,547.00	\$ 22,547.00
Printers 2-HP & Format Printer	5453	\$ 15,794.86	\$ 15,794.86
Ofc Equip/Furniture \$5K to <\$100K	5500	\$ 11,284.96	\$ 11,284.96
Svc Credit	9991	\$ (301.20)	\$ (301.20)

SUBTOTAL	\$ 298,495.74	\$ (301.20)	\$ 298,194.54
Less Revenue	\$ (19,806.84)		\$ (19,806.84)

TOTAL COSTS	\$ 1,361,069	\$ (301.20)	\$ 1,360,767.80
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Total Allowable Indirect Costs = \$ 715,579.66
Salaries & Wages, excluding Benefits = \$ 493,431.48

CITY OF MODESTO
CARRY FORWARD CALCULATION
Division 4212 - Construction Administration

APPROVED INDIRECT COST RATE	FY2005 114.79%	Approved IC Rate (Indirect Costs / Direct S&W)	FY2007 80.40%
INDIRECT CARRY FORWARD			
Carry Forward	\$42,430.82	Carry Forward	0.00
Indirect Costs from Single Audit	\$ 474,540.11	Actual Indirect Costs (From FY2007 Budget)	421,279.88
Total Indirect Costs	\$ 516,970.93	Total Actual Indirect Costs	421,279.88
Recovered Costs		Actual Direct S&W (From FY2007 Budget)	523,955.07
Direct Salaries & Wages (* Approved Rate)	\$ 450,350.86 114.79%		
Total Recovered Indirect Costs	\$ 516,957.75		
Indirect Carry Forward	0.00		
DIRECT SALARIES & WAGES (Per Single Audit)			
General Fund - S&W			
Special Revenue Fund - S&W	\$ 450,350.86 n/a		
Internal Service Fund - S&W	n/a		
Total Direct Salaries & Wages	\$ 450,350.86		

INDIRECT COST RATE SUMMARY FISCAL YEAR 2006/2007

ACTUALS

City of Modesto
Public Works Department
Division 4212, Construction Administration

DESCRIPTION OF COSTS	TOTAL BUDGET	UNALLOWABLE COSTS	ALLOWABLE INDIRECT COSTS	ALLOWABLE DIRECT COSTS
<u>Personnel Services:</u>				
Salaries & Wages	\$ 868,731.32		\$ 344,776.25	\$ 523,955.07
Fringe Benefits	29.68% \$ 257,833.92		\$ 102,327.39	\$ 155,506.53
DIRECT COSTS	\$ 1,126,565.24		\$ 447,103.64	\$ 679,461.60

INDIRECT COSTS

Worker's Compensation	0162	\$ 9,078.00	\$ 9,078.00
Annual Physical Examination	0163	\$ 498.00	\$ 498.00
Employee Assistance	0166	\$ 467.00	\$ 467.00
Employee Benefits Admin - Rembsm	0167	\$ 3,009.00	\$ 3,009.00
Employee Leave Reimbursement	0168	\$ 48,408.08	\$ 48,408.08
Postage	0201	\$ -	\$ -
Mail Services - Inside	0202	\$ 1,947.00	\$ 1,947.00
Business Expenses	0208	\$ 1,516.00	\$ 1,516.00
Training Expenses	0209	\$ 2,368.78	\$ 2,368.78
Utilities	0210	\$ 3,879.18	\$ 3,879.18
Equipment Rental	0216	\$ -	\$ -
Photocopy - Rent, Service, Supply	0217	\$ 9,180.29	\$ 9,180.29
Equipment Pool Rental	0218	\$ 47,163.26	\$ 47,163.26
Records Services - Outside	0219	\$ 4,333.32	\$ 4,333.32
Repair & Maint - Outside Forces	0223	\$ 3,559.25	\$ 3,559.25
Laundry and Cleaning	0226	\$ 304.03	\$ 304.03
Stores Services - Inside	0228	\$ -	\$ -
Services, Professional & Other	0235	\$ 1,355.29	\$ 1,355.29
Delivery	0245	\$ 138.95	\$ 138.95
Building Service - City Forces	0250	\$ 23,586.00	\$ 23,586.00
Infrastructure Tech & Info Chq	0252	\$ 9,180.00	\$ 9,180.00
Replacement Tech & Info Chq	0253	\$ 8,386.00	\$ 8,386.00
Operations Tech & Info Chq	0254	\$ 13,555.00	\$ 13,555.00
Services City Forces - Interfund	0255	\$ 15,822.54	\$ 15,822.54
Phones Tech & Infor Chq	0256	\$ 6,003.00	\$ 6,003.00
Services City Forces - Intrafund	0259	\$ 301.20	\$ 301.20
Temp Agencies	0269	\$ 14,778.89	\$ 14,778.89
Office Supplies	0301	\$ 7,245.54	\$ 7,245.54
Books and Periodicals	0302	\$ 932.81	\$ 932.81
PC Software & Supplies	0306	\$ 3,583.45	\$ 3,583.45
Tools, Shop and Field Supplies	0308	\$ 1,752.64	\$ 1,752.64
Computer Equipment <\$5,000	0350	\$ 2,134.24	\$ 2,134.24
Memberships and Dues	0401	\$ 107.00	\$ 107.00
Property Insurance	0413	\$ -	\$ -
Liability Insurance	0415	\$ 17,070.00	\$ 17,070.00
Tools, Field Equip \$5K to <\$100K	5600	\$ -	\$ -
Svc Credit	9991	\$ -	\$ -

SUBTOTAL	\$ 261,643.74	\$ 40,709.25	\$ 261,643.74
Less Revenue	\$ (287,467.50)		\$ (287,467.50)

TOTAL COSTS	\$ 1,100,741.48	\$ 40,709.25	\$ 421,279.88	\$ 679,461.60
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Total Allowable Indirect Costs =	\$ 421,279.88
Salaries and Wages, excluding Benefits =	\$ 523,955.07

**City of Modesto
2007/2008 Indirect Cost Plan**

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the City of Modesto and approved by Caltrans.

SECTION I: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Fixed with carry forward (Division 4112, Engineering Design)	7/1/07 to 6/30/08	121.13%	All Programs
Fixed with carry forward (Division 4212, Construction Administration)	7/1/07 to 6/30/08	101.87%	All Programs

*Base: Total Direct Salaries and Wages

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted: such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) The estimated costs used in the calculation of the approved rate are from the grantee's approved budget in effect at the time of approval of this plan.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined – either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audited financial statements – any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by Caltrans in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate Calculation

	<u>Division 4112</u> <u>Engineering Design</u>	<u>Division 4212</u> <u>Construction Admin.</u>
FY 2008 Budgeted Indirect Costs	\$740,523.00	\$625,780.00
Carry Forward from FY 2006	<u>\$242,178.99</u>	<u>\$(19,207.46)</u>
FY 2008 Adjusted Budgeted Indirect Costs	\$982,701.99	\$606,572.54
FY 2008 Budgeted Direct Salaries and Wages excluding fringe benefits	\$811,270.00	\$595,430.00
FY 2008 Indirect Cost Rate	121.13%	101.87%

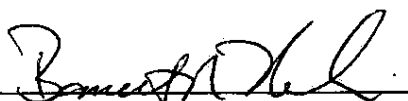
CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect cost rates for fiscal year 2008 (July 1, 2007 to June 30, 2008) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments. "Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct.

Governmental Unit: City of Modesto

Signature: 

Reviewed, Approved and Submitted by:

Name of Official: Barrett R. Newlin

Title: Finance Accounting Division Manager

Date of Execution: 12/7/07

Signature: 

Prepared by:

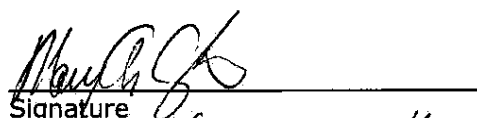
Name of Official: Julie Hendee

Title: Administrative Analyst II

Date of Execution: 12-7-07

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Signature: 

Reviewed and Approved by:

Title: Chief, External Audits

Date: 6/30/08

Phone Number: (916) 323-7105

Signature: 

Reviewed and Approved by:

Title: Auditor

Date: 6/30/08

Phone Number: (916) 323-7954

	FY 2006 37.14%	FY 2008 121.13%
APPROVED INDIRECT COST RATE		
INDIRECT CARRY FORWARD		
Carry Forward	(\$233,891.00)	
Indirect Costs from Single Audit	\$ 658,235.91	242,178.99
Total Indirect Costs	\$424,344.91	740,523.00
Recovered Costs		982,701.99
Direct Salaries & Wages (* Approved Rate)	\$ 490,484.45 37.14%	
Total Recovered Indirect Costs	\$ 182,165.92	811,270.00
Indirect Carry Forward	\$242,178.99	
DIRECT SALARIES & WAGES + FRINGE BENEFITS (Per Single Audit)		
General Fund - S&W	\$490,484.45	
Special Revenue Fund - S&W	n/a	
Internal Service Fund - S&W	n/a	
Total Direct Salaries & Wages	\$490,484.45	

INDIRECT COST RATE SUMMARY FISCAL YEAR 2007/2008

Estimated

City of Modesto
Public Works Department
Division 4112, Engineering Design

DESCRIPTION OF COSTS		TOTAL COSTS	UNALLOWABLE COSTS	ALLOWABLE INDIRECT COSTS	ALLOWABLE DIRECT COSTS
<u>Personnel Services:</u>					
Salaries & Wages		\$ 1,149,307		\$ 338,037	\$ 811,270
Benefits	31.57%	\$ 362,820		\$ 106,713	\$ 256,107
SUBTOTAL		\$ 1,512,127		\$ 444,750	\$ 1,067,377

INDIRECT COSTS

Worker's Compensation	0162	\$ 11,435		\$ 11,435
Annual Physical Examination	0163	\$ -		\$ -
Employee Assistance	0166	\$ 514		\$ 514
Employee Benefits Admin - Rembsm	0167	\$ 3,009		\$ 3,009
Employee Leave Reimbursement	0168	\$ 32,731		\$ 32,731
Postage	0201	\$ 50		\$ 50
Mail Services - Inside	0202	\$ 340		\$ 340
Copier Charges - Inside	0204	\$ -		\$ -
Conference Expenses	0207	\$ 1,000		\$ 1,000
Business Expenses	0208	\$ 50		\$ 50
Training Expenses	0209	\$ 7,630		\$ 7,630
Utilities	0210	\$ 270		\$ 270
Equipment Rental	0216	\$ -		\$ -
Photocopy - Rent, Service, Supply	0217	\$ 4,710		\$ 4,710
Equipment Pool Rental	0218	\$ 5,630		\$ 5,630
Records Services - Outside	0219	\$ -		\$ -
Repair & Maint - Outside Forces	0223	\$ 5,355		\$ 5,355
Laundry and Cleaning	0226	\$ -		\$ -
Stores Services - Inside	0228	\$ -		\$ -
Services, Professional & Other	0235	\$ 2,000		\$ 2,000
Building Service - City Forces	0250	\$ 42,320		\$ 42,320
Infrastructure Tech & Info Chq	0252	\$ 9,594		\$ 9,594
Replacement Tech & Info Chq	0253	\$ 5,043		\$ 5,043
Operations Tech & Info Chq	0254	\$ 43,570		\$ 43,570
Services City Forces - Interfund	0255	\$ 69,045		\$ 69,045
Phones Tech & Infor Chq	0256	\$ 8,113		\$ 8,113
Office Supplies	0301	\$ 6,980		\$ 6,980
Books and Periodicals	0302	\$ 2,100		\$ 2,100
PC Software & Supplies	0306	\$ 15,000		\$ 15,000
Tools, Shop and Field Supplies	0308	\$ -		\$ -
Computer Equipment <\$5,000	0350	\$ 2,000		\$ 2,000
Memberships and Dues	0401	\$ 978		\$ 978
Property Insurance	0413	\$ -		\$ -
Liability Insurance	0415	\$ 22,819		\$ 22,819
Office Equip/Furniture \$5K <\$100K	5500	\$ 2,000		\$ 2,000
Svc Credit	9991	\$ -	\$ -	
Revenue		\$ -	\$ -	

SUBTOTAL	\$ 304,286	\$ -	\$ 304,286
Less Revenue	\$ (8,513)		\$ (8,513)

TOTAL COSTS	\$ 1,807,900	\$ -	\$ 740,523	\$ 1,067,377
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Total Allowable Indirect Costs = \$ 740,523
Salaries & Wages, excluding Benefits = \$ 811,270

CITY OF MODESTO
CARRY FORWARD CALCULATION
Division 4212 - Construction Administration

APPROVED INDIRECT COST RATE	FY 2006 94.50%	Approved IC Rate (Indirect Costs / Direct S&W)	FY 2008
INDIRECT CARRY FORWARD			
Carry Forward			
Indirect Costs from Single Audit	(\$44,363.00) \$ 465,387.71	Carry Forward Estimated Indirect Costs (From FY2008 Budget)	(19,207.46) 625,780.00
Total Indirect Costs	\$ 421,024.71	Total Estimated Indirect Costs	606,572.54
Recovered Costs			
Direct Salaries & Wages	\$ 465,854.15	Estimated Direct S&W (From FY2008 Budget)	595,430.00
(* Approved Rate)	94.50%		
Total Recovered Indirect Costs	\$ 440,232.17		
Indirect Carry Forward	(19,207.46)		
DIRECT SALARIES & WAGES (Per Single Audit)			
General Fund - S&W	\$ 465,854.15		
Special Revenue Fund - S&W	n/a		
Internal Service Fund - S&W	n/a		
Total Direct Salaries & Wages	\$ 465,854.15		

INDIRECT COST RATE SUMMARY FISCAL YEAR 2007/2008

Estimated

City of Modesto
Public Works Department
Division 4212, Construction Administration

DESCRIPTION OF COSTS	TOTAL BUDGET	UNALLOWABLE COSTS	ALLOWABLE INDIRECT COSTS	ALLOWABLE DIRECT COSTS
Personnel Services:				
Salaries & Wages	\$ 979,053		\$ 383,623	\$ 595,430
Fringe Benefits 31.43%	\$ 307,707		\$ 120,569	\$ 187,138
DIRECT COSTS	\$ 1,286,760		\$ 504,193	\$ 782,567

INDIRECT COSTS

Worker's Compensation	0162	\$ 10,719	\$ 10,719
Annual Physical Examination	0163	\$ -	\$ -
Employee Assistance	0166	\$ 467	\$ 467
Employee Benefits Admin - Rembsm	0167	\$ 3,009	\$ 3,009
Employee Leave Reimbursement	0168	\$ 30,759	\$ 30,759
Postage	0201	\$ 813	\$ 813
Mail Services - Inside	0202	\$ 1,134	\$ 1,134
Business Expenses	0208	\$ 51	\$ 51
Training Expenses	0209	\$ 4,000	\$ 4,000
Utilities	0210	\$ 4,860	\$ 4,860
Equipment Rental	0216	\$ 102	\$ 102
Photocopy - Rent, Service, Supply	0217	\$ 2,958	\$ 2,958
Equipment Pool Rental	0218	\$ 36,626	\$ 36,626
Records Services - Outside	0219	\$ 5,100	\$ 5,100
Repair & Maint - Outside Forces	0223	\$ 3,800	\$ 3,800
Laundry and Cleaning	0226	\$ 336	\$ 336
Stores Services - Inside	0228	\$ 733	\$ 733
Services, Professional & Other	0235	\$ 2,900	\$ 2,900
Building Service - City Forces	0250	\$ 31,280	\$ 31,280
Infrastructure Tech & Info Chq	0252	\$ 11,650	\$ 11,650
Replacement Tech & Info Chq	0253	\$ 11,243	\$ 11,243
Operations Tech & Info Chq	0254	\$ 26,176	\$ 26,176
Services City Forces - Interfund	0255	\$ 51,882	\$ 51,882
Phones Tech & Infor Chq	0256	\$ 7,572	\$ 7,572
Employment Agencies - Temps	0269	\$ 2,000	\$ 2,000
Office Supplies	0301	\$ 5,000	\$ 5,000
Books and Periodicals	0302	\$ 1,020	\$ 1,020
PC Software & Supplies	0306	\$ 4,900	\$ 4,900
Tools, Shop and Field Supplies	0308	\$ 2,500	\$ 2,500
Computer Equipment <\$5,000	0350	\$ 1,000	\$ 1,000
Memberships and Dues	0401	\$ 398	\$ 398
Property Insurance	0413	\$ -	\$ -
Liability Insurance	0415	\$ 16,999	\$ 16,999
Office Equip \$5K to <\$100K	5500	\$ 19,600	\$ 19,600
Tools Field Equip \$5K to <\$100K	5600	\$ 15,000	\$ 15,000
Svc Credit	9991	\$ -	\$ -

SUBTOTAL	\$ 316,587	\$ -	\$ 316,587
Less Revenue	\$ (195,000)		\$ (195,000)

TOTAL COSTS	\$ 1,408,347	\$ -	\$ 625,780	\$ 782,567
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Total Allowable Indirect Costs = \$ 625,780
Salaries and Wages, excluding Benefits = \$ 595,430